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FISCAL IMPACT STATEMENT

LS 7617 | **NOTE PREPARED:** Jan 24, 2007
BILL NUMBER: HB 1591 | **BILL AMENDED:**

SUBJECT: Renewable energy investment tax credit.

FIRST AUTHOR: Rep. Knollman | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill establishes the Renewable Energy Investment Tax Credit for individuals or businesses that make a qualified investment in a project located in Indiana that will generate energy from renewable energy resources. The bill limits the receipt of multiple credits for the same investment made to produce renewable energy. The bill also provides that the Credit may be assigned.

Effective Date: January 1, 2008.

Explanation of State Expenditures: This bill will increase the administrative costs of the Department of State Revenue (DOR), the Indiana Economic Development Corporation (IEDC), the Utility Regulatory Commission (IURC), and the Office of Energy and Defense Development (EDD) within the Lieutenant Governor's office.

The bill requires the DOR and IEDC to administer the Renewable Energy Investment Tax (REIT) Credit. The DOR will have to amend the tax forms, as well as update computer software. The IEDC will be required to develop procedures, and adopt rules to award REIT Credits for certain investments in renewable energy projects. The IEDC is also required to file a report on the tax credit program with the EDD with a copy of the report required to be submitted to the Executive Director of the Legislative Services Agency. The bill also requires the IEDC to file a biennial evaluation of the tax credit program with the Governor, Speaker, and President Pro Tempore. It is estimated that the provisions of this bill can be implemented within the existing level of resources available to the DOR and the IEDC.

The bill requires a person or entity seeking an REIT Credit for a project to first obtain a certificate from the IURC that verifies that the public convenience and necessity require or will require the project to take place.

It is estimated that these certifications can be provided by the IURC through the use of existing staff and resources.

The bill requires the IEDC to consult with the EDD in adopting rules for administering the REIT Credit. It is anticipated that the EDD can implement these provisions through the use of existing staff and resources.

Explanation of State Revenues: This bill could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax, Utility Receipts Tax, Financial Institutions Tax, and Insurance Premiums Tax beginning in FY 2008. The impact will ultimately be determined by the amount of any qualified investment made in Indiana. Credits for investment that are encouraged by the change made under this bill presumably are not a revenue loss to the state. However, if the investment would have occurred in the absence of the change made by this bill, the net impact would be the total credits claimed by investors. The bill has a January 1, 2008 effective date, therefore, only the last half of FY 2008 revenues would be affected.

The bill disallows a taxpayer from claiming biodiesel or blended biodiesel credits, ethanol production credits, and REIT Credits for the same project. The impact of this provision is indeterminable and will ultimately depend upon the number and availability of credits that could have previously been taken for the same project.

The bill provides an assignable tax credit for certain "qualified investment" in Indiana. "Qualified investment" means expenditures on a facility, software, or equipment that is placed in service in Indiana and directly used the produce electricity or fuel suitable for an internal combustion engine. The electricity or fuel must also be made from a renewable energy resource. The bill provides that this credit may not be carried forward, and also requires the assignor and assignee to report to the IEDC when assigning an REIT Credit awarded under the bill. By allowing the assignment of the REIT Credits the bill is allowing a greater percentage of the fiscal impact to occur each year these credits are awarded based on the likelihood that a taxpayer that can not exhaust the credit against the taxpayer's own tax liability will assign the credit to be exhausted in the same taxable year.

The bill allows the IEDC to award these REIT Credits as well as determine the amount of the Credit by determining what percentage of the qualified investment is eligible. The bill limits the amount of the Credit to 10% of the qualified investment.

Background: The bill provides that a taxpayer must enter into an agreement with the IEDC after being awarded an REIT Credit. The agreement must include:

(1) A detailed description of the project that is the subject of the agreement.
(2) The first taxable year for which the credit may be claimed.
(3) The maximum credit amount that will be allowed for each taxable year.
(4) A requirement that the applicant obtain from the IURC a certificate under IC 8-1-8.5-2 that public convenience and necessity require or will require the construction, purchase, or lease of the project.
(5) A requirement that if the credit is awarded, the holder of the credit shall provide written notification to the IEDC not less than 30 days before assigning any part of the credit to an assignee.
(6) Any other performance conditions that the IEDC determines to be appropriate.

The bill defines renewable energy resource as:

(1) Wind.
(2) Solar energy.
(3) Open-loop biomass (as defined in Section 45 of the Internal Revenue Code).

(4) Corn, soybeans, or other organic material from a plant.
(5) Municipal solid waste (as defined in Section 45 of the Internal Revenue Code).
(6) Geothermal energy.
(7) Small irrigation power (as defined in Section 45 of the Internal Revenue Code).
(8) Qualified hydropower production (as defined in Section 45 of the Internal Revenue Code).
(9) Industrial waste gas.
(10) Hydrogen.
(11) Another alternative renewable energy source approved by the IEDC after consultation with the EDD.

The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). All corporate AGI tax collections are deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Utility Regulatory Commission; Indiana Economic Development Corporation; Lieutenant Governor's Office; Legislative Services Agency.

Local Agencies Affected:

Information Sources:

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